

The Department's opinion is that the most important element of selling is the seller's acceptance of the purchase order. Consequently, if a purchase order is accepted in a jurisdiction that imposes a local tax, that jurisdiction's tax will be incurred. See 86 Ill. Adm. Code 270.115. (This is a PLR).

March 7, 2003

Dear Xxxxx:

This Private Letter Ruling, issued pursuant to 2 Ill. Adm. Code 1200 (see [www.revenue.state.il.us/Laws/regs/part1200/](http://www.revenue.state.il.us/Laws/regs/part1200/)), is in response to your letter of January 3, 2003. Review of your request for a Private Letter Ruling disclosed that all information described in paragraphs 1 through 8 of subsection (b) of Section 1200.110 appears to be contained in your request. This Private Letter Ruling will bind the Department only with respect to AAA for the issue or issues presented in this ruling. Issuance of this ruling is conditioned upon the understanding that neither AAA nor a related taxpayer is currently under audit or involved in litigation concerning the issues that are the subject of this ruling request.

In your letter, you have stated and made inquiry as follows:

We respectfully request a Private Letter Ruling pursuant to 2 Ill. Admin. Code Section 1200.110, for our client, AAA (Power of Attorney form enclosed) (hereinafter 'our client'). The paragraphs below completely discuss the specific facts and legal authorities. There are no audits or litigation cases pending with respect to this request. To the best of the knowledge of both our client and our office the Department has not previously ruled on the same or a similar issue for our client or predecessors. Neither our client nor our office previously submitted the same or a similar issue to the Department but withdrew it before a letter ruling was issued. We thank you in advance for your prompt attention to this matter.

### **Facts**

Our client sells lumber and building materials throughout Illinois. As of January 1, 2003, our client will have four (4) locations throughout the state of Illinois. As of January 1, 2003, our client's corporate headquarters will be located in CITY, Illinois. To streamline its business operations and achieve cost efficiencies, beginning January 1, 2003, our client will establish a single order-acceptance location at its corporate headquarters in CITY relative to certain retail sales as described below.

Some of our client's customers buy building materials with cash or by credit card. Other customers (i.e. construction contractors) make purchases through 'master credit' arrangements. In particular, our client makes credit sales to construction contractors

engaged in long-term building projects in Illinois. The following steps outline the procedures in connection with making and executing these credit sales on or after January 1, 2003:

#### #1: Price Quote

- A construction contractor obtains a quote from a company salesperson whose job is to solicit business for our client but not to accept customer orders.
- A salesperson creates a quote (i.e. a price estimate and proposal) which a sales manager then approves.
- If the contractor accepts the price, the contractor signs the quote.
- The signed quote is then filed at a site – usually one nearest the contractor.
- Our client is now bound to the contractor for price only. However, the contractor has no obligation at this point to place a purchase order, nor has our client tendered to the contractor an unconditional offer to sell any materials.

#### #2: Credit Application and Purchase Order Approval

- Upon receipt of a signed quote, our client prepares a credit application that is forwarded to the contractor. The contractor completes the credit application that is forwarded to our client's corporate headquarters.
- As of January 1, 2003, our client's credit manager will be physically located at our client's corporate headquarters in CITY, Illinois. Our client's credit manager determines whether to approve the credit application. If our client's credit manager approves the contractor's credit application, the credit manager opens up an account for that contractor and sets a 'master credit limit' for that contractor.
- Over the life of the construction project, our client will review the contractor's 'master credit limit' and ultimately accept the contractor's purchase orders each time before the contractor can obtain building materials.

Our client has other customers that also establish multiple 'master credit limits' because they have multiple jobs that require building materials. These customers submit a credit application and purchase order to our client for each job (including a list of individuals who are approved to make purchases on behalf of the contractor). The credit application and purchase order must be approved and accepted by our client's credit manager each time before the customer can obtain building materials. For these customers, our client's credit manager (located in CITY, Illinois) will approve and accept all new jobs after December 31, 2002.

As of January 1, 2003, our client will have several contractor customers that established 'master credit limits' on or before December 31, 2002. For these customers our client's credit manager is going to perform a 2002 year-end credit review to update their credit applications and look for customers that may have undergone a bankruptcy or who otherwise might pose credit risks that may not be disclosed by standard credit reporting services. On January 1, 2003, the existing customers' 'master credit limits' will no longer be valid unless and until they satisfy the 2002 year-end creditworthiness requirements. Our client's credit manager will perform the 2002 year-end credit review at the corporate headquarters in CITY, Illinois during the last week in December 2002. Our client's credit manager's 2002 year-end review of existing 'master credit limit' contractor customers is the most cost-efficient method for giving our client the optimal degree of internal control over the order acceptance process and minimizing its exposure to credit risks. Like our client's other 'master credit limit' contractor customers, these customers also must be approved and accepted by our client's credit manager (located in CITY, Illinois) each time before the customer can obtain building materials.

### **Issue**

Where does order acceptance take place for purposes of determining the appropriate state and local sales tax rate to apply to our client's contract sales?

### **Legal Authorities**

The imposition of the various sales tax related local taxes in Illinois are triggered when 'selling' occurs in a jurisdiction imposing a tax. The most important element of selling is the seller's acceptance of the purchase order. Consequently, if a purchase order is accepted in a jurisdiction that imposes a local tax, that tax will be incurred (see 86 Ill. Admin. Code 270.115; see also ST 01-0007-PLR, issued February 15, 2001; ST 01-0008-PLR, issued February 26, 2001).

### **Request for Ruling**

Based on the facts and legal authorities contained in this request, we respectfully request that the Department issue a Private Letter Ruling confirming that as of January 1, 2003, our client's order acceptance point for its contract sales is at its corporate headquarters in CITY, Illinois. Thus, our client should remit to the Illinois Department of Revenue the state and local ROT imposed upon retailers doing business in CITY, Illinois. This conclusion is consistent with state law and prior Illinois Department of Revenue letter rulings.

Thank you for your prompt attention to this matter. Please call the undersigned if you have any questions or need any additional information.

The imposition of the various sales tax related local taxes in Illinois are triggered when 'selling' occurs in a jurisdiction imposing a tax. The Department's opinion is that the most important element of selling is the seller's acceptance of the purchase order. Consequently, if a purchase order is accepted in a jurisdiction that imposes a local tax, that tax will be incurred. See 86 Ill. Adm. Code 270.115.

The tax rate is fixed by the location of the seller, not the delivery location. The fact that the item being sold is shipped from out-of-State or from another Illinois location is immaterial for purposes of local taxes if the sale occurs through order acceptance in an Illinois jurisdiction imposing a local tax. Although 86 Ill. Adm. Code 270.115 deals with the municipal Home-Rule taxes, the principles outlined in this regulation apply to all local taxes administered by the Department.

In the situation you presented, your client's cash and credit-card sales are being made from the same location where the inventory is located. Under these circumstances, the location of the stores or warehouse sites is the Illinois jurisdiction that determines the rate of tax for the cash and credit-card sales.

In regards to the master credit limit sales you describe, the purchase order is accepted and approved at the company's headquarters in CITY, Illinois. The company does not become bound to deliver the materials until the credit manager located in CITY accepts the contractor's purchase order. Therefore, for these sales, CITY is the Illinois jurisdiction that determines the rate of tax. This applies to both new sales and existing customers whose master credit limits will be reviewed at year's end.

The facts upon which this ruling are based are subject to review by the Department during the course of any audit, investigation, or hearing and this ruling shall bind the Department only if the material facts as recited in this ruling are correct and complete. This ruling will cease to bind the Department if there is a pertinent change in statutory law, case law, rules or in the material facts recited in this ruling.

I hope this information is helpful. If you have further questions concerning this Private Letter Ruling, you may contact me at (217) 782-2844. If you have further questions related to the Illinois sales tax laws, please visit our website at [www.revenue.state.il.us](http://www.revenue.state.il.us) or contact the Department's Taxpayer Information Division at (217) 782-3336.

Very truly yours,

Melanie A. Jarvis  
Associate Counsel

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